



INTERNATIONAL CLIMATE CHANGE PARTNERSHIP

June 15, 2007

TO: AB 32 Market Advisory Committee

The International Climate Change Partnership (ICCP) is pleased to provide you with comments on the draft report of recommendations for designing a greenhouse gas cap-and-trade system for California. ICCP has been very active in the work leading to passage of AB 32 in California, and has been constructively engaged in the climate policy debate worldwide since 1991.

ICCP would like to commend the members of the Market Advisory Committee for their work in producing an excellent report in a short amount of time. We would also like to thank the committee for their strong endorsement of cap and trade as one of the main components of AB 32 implementation. ICCP believes that any regulation of greenhouse gases should be based on flexible market mechanisms and was a strong proponent for their inclusion in AB 32.

ICCP generally agrees with the main recommendations of the Market Advisory Committee that a cap-and-trade program for California should be comprehensive, include all gases, cover all sectors of the economy, include broad offsets, and promote early action. Below are comments on specific sections of the report.

Allowance Distribution

ICCP does not believe that companies should be required to buy their plants back as part of a mandatory GHG regulation. Therefore, we support the initial allocation of allowances without cost. This is how it was done for EPA's acid rain and ozone depleting substances programs and these programs have been very successful. We agree with the Committee's recommendation that some allowances be set aside for technology investment, consumer protection, and assistance to energy-intensive industries.

Recognition for Early Action

Many of our members have already initiated significant GHG emissions reduction programs, so recognition for early action is a key issue for ICCP. We are gratified for the Committee's strong support for recognizing and promoting early action, but disappointed

that the Committee did not recommend providing offset credits for early action. As long as these early reductions can be verified in the same way as other reductions, there is no reason not to allow them as offset credits. Allowing early action offsets would be the most effective way to recognize actions already taken and promote additional early action in the years leading to 2012.

Offsets

ICCP supports the recommendation of the Committee that offsets be included in the program and that they be real, additional, verifiable, permanent, enforceable, and transparent. We also agree with the Committee's recommendation that there be no geographical or quantitative limits on offsets. ICCP has always supported the concept that all verified emission reductions are equal. Based on this concept we would argue against any artificial limitations being placed on offsets, even in the initial phases of the program. The periodic review recommended by the Committee could be used to ensure that social equity and air quality considerations are being addressed.

Cost-Containment Mechanisms

ICCP supports the recommendation of the Committee that allowances distributed under a cap-and-trade program should not expire and could be banked for use in subsequent compliance periods. We understand the Committee's recommendation against a quantitative safety valve, but we are concerned that there be some mechanism to assure that compliance costs do not become too high. One way to address this problem is to create a panel of economic advisers to advise the Board of potential economic downsides of its actions and to recommend either delays in the proposed reduction schedule or the stringency of the interim targets, or, as a last resort, a quantitative safety valve to reduce compliance costs for the cap-and-trade program.

Potential Linkages with Other Cap-and-Trade Programs

ICCP supports the concept that credits from a California cap-and-trade system would be fungible in some way with other trading programs. If not prohibited, the trading markets are likely to identify the most efficient means of making this happen. Although there are political and legal hurdles to adding international trading to a domestic system, at a minimum the California program should ensure that verification systems are comparable with international programs, with a goal towards legal compatibility in the future.

ICCP appreciates the opportunity to comment on the draft report.

Sincerely,

Kevin Fay
Executive Director

The International Climate Change Partnership (ICCP), organized in 1991, is a global coalition of companies and trade associations from diverse industries committed to constructive and responsible participation in the international policy process concerning global climate change. The ICCP recognizes that the continued growth in emissions of greenhouse gases is an important concern for all nations and that efforts are underway internationally and in national governments to develop policies that address this concern. ICCP also understands the importance of working within the process to achieve important environmental objectives while fostering continued economic development and improvement in living conditions for all.

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